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**WESTERN WORLD  
INSURANCE COMPANY**

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E-MAIL: [s.joseph@westernworld.com](mailto:s.joseph@westernworld.com)

January 9, 2015

Todd Shields  
Professional Collection Consultants  
3<sup>rd</sup> Floor  
6700 South Centinella Boulevard  
Culver City, CA 90230

RE: Insured:	Professional Collection Consultants
Claimant:	Gregory Hudson
Claim No.:	114165
Policy Period:	February 17, 2014 to February 17, 2015
Limit of Liability:	\$1 million per claim/aggregate
Retention:	\$50,000 per claim

Dear Mr. Shields:

Please allow this letter to supplement Lou Rivero's letter of August 7, 2014, addressed to your attention regarding the above-referenced claim. As indicated in that letter, Western World Insurance Company provides Employment Practices Liability coverage under the above-referenced policy and assigned the law office of Thompson, Coe & O'Meara to defend and protect the interests of Professional Collection Consultants in this matter.

Also, as indicated, Western World Insurance Company had reserved all of its rights based on the limited information currently available at that time.

We have now become aware that in September 2013, Professional Collection Consultants became aware that it was the subject of a criminal investigation by the U.S. Attorney's Office that had been initiated by the claimant, Gregory Hudson, as the whistleblower. We understand that 20 to 30 Federal Agents raided the Professional Collection Consultants' office at that time.

We understand that the claimant, Gregory Hudson, was later terminated on March 20, 2014. We note that the bases of his termination was for violation of company policies, including theft, acts of dishonesty, incompetence, or inefficiency in the performance of its duties, offensive or abusive conduct or language towards employees or the public, conduct or behavior detrimental or damaging to the company, personal conduct unbecoming of an employee of the company,



A MEMBER COMPANY OF THE WESTERN WORLD INSURANCE GROUP

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engaging in deliberate sabotage or acts of malicious mischief, falsifying information supplied to the company, willful failure of good conduct intending to injure the company, and carelessness or negligence in the performance of its duties.

After the September 2013 raid of the Professional Collection Consultants' office, subpoenas were issued to a number of Professional Collection Consultants personnel to testify for a Grand Jury. We understand that additional witness subpoenas were issued in the December 2013 to January 2014 timeframe.

With this in mind, we refer your attention to the Application completed by you and signed on February 7, 2014. The application provides in its relevant part as follows:

"None of the individuals to be insured under any Coverage Part (the 'Insured Persons') have a basis to believe that any wrongful act, event, matter, fact, circumstance, situation, or transaction, might reasonably be expected to result in or be the basis of a future claim? ☐ Yes ☒ No

Without prejudice to any other rights and remedies of CNA, any claim arising from any facts, circumstances or situations required to be disclosed is excluded from the portion of any renewal limit of liability that exceeds the expiring limit of liability in the proposed insurance.

As this is a CNA application, as part of your policy, Western World Insurance Company included Endorsement DEL88 (10/11), which is referred to as Reliance Upon Another's Application Endorsement. This endorsement provides as follows:

"This endorsement modifies insurance provided under the following:

**DIRECTORS, OFFICERS, INSURED ENTITY AND EMPLOYMENT PRACTICES  
INSURANCE COVERAGE PART**

SECTION VI - CONDITIONS, Subsection B., is amended with the addition of the following:

**8. Representations:**

Any and all references to an 'application' in this policy will include the application or proposal described below. We have relied upon all statements, representations and other information and documents contained in or submitted with the other application or proposal as if they were submitted directly to us using our own 'application' form.

Type of Application/Proposal: EPack Extra  
Carrier: CNA  
Date Signed: 2/7/2014

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We further refer your attention to the first page of the policy, which states:

"In consideration of the payment of the premium and reliance upon the statements made and information furnished to us as part of the 'application', and subject to all the provisions of this policy, we agree to provide the insurance described in this Coverage Form and its applicable endorsements."

As indicated above, this endorsement provides that we have relied upon all statements, representations and other information and documents contained in or submitted with the other application or proposal as if they were submitted directly to us using our own "application" form. Please be advised that Western World Insurance Company reserves its rights to deny coverage or rescind the policy based on the failure to advise Western World in your application for insurance of the U.S. Attorney General's investigation. It does appear that such an event or situation would be potentially something that might reasonably be expected to result in or be the basis of a claim, including but not limited to the whistleblower claim that is currently being pursued by Greg Hudson.

We further refer your attention to the Exclusions portion of the policy, which provides in relevant part as follows:

#### **"SECTION III - EXCLUSIONS**

This insurance does not apply to any 'loss' or 'defense costs' in connection with any 'claim' made against an insured, arising out of, directly or indirectly resulting from, or in consequence of, or in any way involving:

##### **5. Prior Knowledge**

Any actual or alleged act, error or omission, breach of duty or circumstance that an insured:

- a. Had knowledge of prior to the effective date of the policy; and
- b. Had a reasonable belief the actual or alleged act, error or omission, breach of duty or circumstance could result in a 'claim'."

As indicated above, there is no coverage for any loss or defense costs in connection with any claim made against an insured arising out of, directly or indirectly resulting from, or in consequence of, or in any way involving any actual or alleged negligent act, error or omission, breach of duty or circumstance that insured had knowledge of prior to the effective date of the policy, and had a reasonable belief the actual or alleged act, error or omission, breach of duty or circumstance could result in a claim.

Further, in view of the issues outlined above, Western World Insurance Company has retained counsel to review what obligations, if any, Western World may have with respect to the claims brought on behalf of Gregory Hudson.

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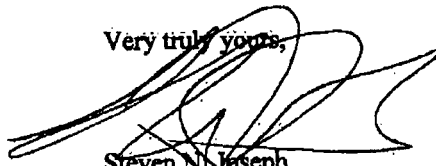
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Western World Insurance Company further reserves its rights to supplement this letter to raise additional terms set forth in the policy, based on facts that may either be known or further come to light based on any further investigation. Western World Insurance Company otherwise reserves the right to further deny coverage on any alternative bases, should any underlying facts or theories or additional information submitted for review and evaluation so warrant. Western World also reserves its rights to bring a declaratory judgment action in order to have a court of law further determine its obligations under the policy.

If you disagree with the contents of this, you may have the matter reviewed by the California Department of Insurance. The address and telephone number of the appropriate unit is: California Department of Insurance, Claims Service Bureau, 11th Floor, 300 South Spring Street, Los Angeles, California 90013, telephone number: 1 (800) 927-4357 or (213) 897-8921.

Should you have any questions regarding this letter or the coverage that is provided under the policy, please do not hesitate to contact me at the above direct-dial number.

Very truly yours,



Steven N. Joseph  
Second Vice President, JD

SNJ/rv  
114165 Professional Collection L2 15 SJ rv.docx  
UPS Tracking No. 1Z 061 742 01 9049 3938  
cc: Agent #16104 – U.S. Risk Pro  
Attn: Blake Ray